Exhibit B

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 29, 2006

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-7182

Merrill Lynch & Co., Inc.
(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**13-2740599** **(I.R.S. Employer Identification No.)**
4 World Financial Center, New York, New York **(Address of principal executive offices)**	**10080** **(Zip Code)**

Registrant's telephone number, including area code: (212) 449-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1.33⅓ and attached Rights to Purchase Series A Junior Preferred Stock	New York Stock Exchange Chicago Stock Exchange
Depositary Shares representing 1/1200th share of Floating Rate Non-Cumulative Preferred Stock, Series 1; Depositary Shares representing 1/1200th share of Floating Rate Non-Cumulative Preferred Stock, Series 2; Depositary Shares representing 1/1200th share of 6.375% Non- Cumulative Preferred Stock, Series 3; Depositary Shares representing 1/1200th share of Floating Rate Non-Cumulative Preferred Stock, Series 4; and S&P 500® Inflation Adjusted MITTS® Securities due September 24, 2007; Trust Preferred Securities of Merrill Lynch Capital Trust I (and the guarantees with respect thereto)	New York Stock Exchange

See the full list of securities listed on the American Stock Exchange and The NASDAQ Stock Market on the pages directly following this cover.

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☑

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of the close of business on June 30, 2006, the aggregate market value of the voting stock, comprising the Common Stock and the Exchangeable Shares, held by non-affiliates of the Registrant was approximately $62.1 billion.

As of the close of business on February 16, 2007, there were 881,700,999 shares of Common Stock and 2,634,716 Exchangeable Shares outstanding. The Exchangeable Shares, which were issued by Merrill Lynch & Co., Canada Ltd. in connection with the merger with Midland Walwyn Inc., are exchangeable at any time into Common Stock on a one-for-one basis and entitle holders to dividend, voting and other rights equivalent to Common Stock.

Documents Incorporated By Reference: Portions of the Merrill Lynch Proxy Statement to be filed for its 2007 Annual Meeting of Shareholders to be held April 27, 2007 are incorporated by reference in this Form 10-K in response to Part III.

Pages 1 through 18, on which appeared a portion of Merrill Lynch & Co., Inc.'s 2006 Annual Report to Shareholders, are not filed with, incorporated by reference in or otherwise to be deemed a part of this Annual Report on Form 10-K.

Securities registered pursuant to Section 12(b) of the Act and listed on the American Stock Exchange are as follows: Accelerated Return Notes℠ Linked to the S&P 500 Index due April 7, 2008; Strategic Return Notes® Linked to the Industrial 15 Index due February 2, 2012; 12% Callable Stock Return Income Debt Securities® (payable on the maturity date with Apple, Inc. common stock) due February 7, 2008; Accelerated Return Notes℠ Linked to the Energy Select Sector Index due February 29, 2008; Dow Jones EURO STOXX 50℠ Index Market Indexed Target-Term Securities® due June 28, 2010; Accelerated Return Notes℠ Linked to the MSCI EAFE® Index due February 6, 2008; Accelerated Return Notes℠ Linked to the Dow Jones Industrial Average℠ due March 6, 2008; Accelerated Return Notes℠ Linked to the Nikkei® 225 Index due January 7, 2008; Strategic Return Notes® Linked to the Select Ten Index due November 8, 2011; Nikkei 225 Market Indexed Target-Term Securities® due April 5, 2010; Accelerated Return Notes℠ Linked to the Russell 2000® Index due January 4, 2008; Strategic Return Notes Linked to the Baby Boomer Consumption Index due September 6, 2011; Accelerated Return Notes℠ Linked to the Dow Jones Industrial Average℠ due November 20, 2007; Accelerated Return Notes℠ Linked to the S&P MidCap 400 Index due August 8, 2007; Accelerated Return Notes℠ Linked to the PHLX® Gold and Silver Sector Index due October 9, 2007; Strategic Return Notes Linked to the Value 30 Index due August 8, 2011; Strategic Return Notes Linked to the Value 30 Index due July 6, 2011; Accelerated Return Notes℠ Linked to the Russell 2000® Index due September 6, 2007; Accelerated Return Notes℠ Linked to the Nikkei® 225 Index due August 6, 2007; 7% Callable Stock Return Income Debt Securities℠ (payable on the maturity date with Intel Corporation common stock) due April 5, 2007; 8% Callable Stock Return Income Debt Securities℠ (payable on the maturity date with Halliburton Company common stock) due April 4, 2007; 50/150 Nikkei® 225 Index Notes due October 7, 2009; Accelerated Return Notes℠ Linked to the Dow Jones EURO STOXX 50℠ Index due May 8, 2007; Accelerated Return Notes℠ Linked to the S&P 500 ® Index due August 24, 2007; Accelerated Return Notes℠ Linked to the Nasdaq-100 Index due August 3, 2007; Strategic Return Notes Linked to the Industrial 15 Index due August 3, 2009; Accelerated Return Notes℠ Linked to the Nikkei® 225 Index due March 5, 2007; Accelerated Return Bear Market Notes℠ Linked to the PHLX Housing Sector Index due March 22, 2007; 8% Monthly Income Strategic Return Notes Linked to the CBOE S&P 500 BuyWrite Index due January 3, 2011; Accelerated Return Notes℠ Linked to the Russell 2000® Index due February 28, 2007; Nikkei® 225 Market Indexed Target Term Securities® due June 5, 2009; 8% Monthly Income Strategic Return Notes Linked to the CBOE DJIA BuyWrite Index due November 9, 2010; Convertible Securities Exchangeable into Pharmaceutical HOLDRs® due September 7, 2010; Strategic Return Notes Linked to the Industrial 15 Index due August 9, 2010; 8% Monthly Income Strategic Return Notes Linked to the CBOE S&P 500 BuyWrite Index due June 7, 2010; MITTS® Securities based upon the Russell 2000® Index due March 30, 2009; Nikkei® 225 Securities due March 30, 2009; S&P 500 MITTS® Securities due June 29, 2009; MITTS® Securities based upon the Dow Jones Industrial Average℠ due August 7, 2009; S&P 500 MITTS® Securities due September 4, 2009; 1% Convertible Securities Exchangeable into McDonald's Corporation common stock due May 28, 2009; Callable MITTS® Securities due October 5, 2007 based upon Semiconductor HOLDRS®; Callable MITTS® Securities due September 13, 2007 based upon Broadband HOLDRS®; Callable Nasdaq-100 MITTS® Securities due August 3, 2007; Callable MITTS® Securities due May 4, 2009 Linked to the S&P 500 Index; Callable MITTS® Securities due May 4, 2009 Linked to the Amex Biotechnology Index; Callable MITTS® Securities due June 1, 2009 Linked to the Amex Defense Index; Callable MITTS® Securities due August 3, 2007 based upon Biotech HOLDRS®; Nikkei® 225 MITTS® Securities due March 30, 2007; Callable MITTS® Securities due March 5, 2007 based upon Internet HOLDRS®; 0.25% Callable and Exchangeable Stock-Linked Notes due January 7, 2008 (Linked to the performance of Wells Fargo & Company); Nikkei® 225 MITTS® Securities due June 27, 2007; Strategic Return Notes Linked to the Select Ten Index due March 1, 2007; Strategic Return Notes Linked to the Oil and Natural Gas Index due March 28, 2007; Strategic Return Notes Linked to the Industrial 15 Index due May 3, 2007; Strategic Return Notes Linked to the Select Ten Index due May 3, 2007; Strategic Return Notes Linked to the Select European 50 Index due June 11, 2007; Strategic Return Notes Linked to the Select Ten Index due June 28, 2007; Strategic Return Notes Linked to the Industrial 15 Index due August 30, 2007; Strategic Return Notes Linked to the Select Ten Index due October 25, 2007; Strategic Return Notes Linked to the Biotech-Pharmaceutical Index due November 1, 2007; Convertible Securities Exchangeable into Exxon Mobil Corporation Common Stock due October 3, 2008; Convertible Securities Exchangeable into The Coca-Cola Company Common Stock due September 30, 2008; Strategic Return Notes Linked to the Select Utility Index due February 25, 2009; and Strategic Return Notes Linked to the Select Utility Index due September 28, 2009.

Securities registered pursuant to Section 12(b) of the Act and listed on The NASDAQ Stock Market are as follows: Accelerated Return Notes℠ Linked to the Nasdaq-100 Index due October 9, 2007; Strategic Return Notes Linked to the Industrial 15 Index due April 25, 2011; S&P 500 Market Indexed Target-Term Securities®, due June 7, 2010; Accelerated Return Notes® Linked to the Nasdaq 100 Index due August 3, 2007; Leveraged Index Return Notes Linked to the Nikkei® 225 Index due March 2, 2009; S&P 500 MITTS® Securities due August 31, 2011; Strategic Return Notes Linked to the Select Ten Index due June 4, 2009; 97% Protected Notes Linked to Global Equity Basket due February 14, 2012; Strategic Return Notes Linked to the Industrial 15 Index due March 30, 2009; Strategic Return Notes Linked to the Select Ten Index due March 2, 2009; 97% Protected Notes Linked to the performance of the Dow Jones Industrial Average℠ due March 28, 2011; Strategic Return Notes Linked to the Select Ten Index due March 2, 2009; Dow Jones Industrial Average℠ MITTS® Securities due December 27, 2010; Nikkei® 225 MITTS® Securities due March 8, 2011; Strategic Return Notes Linked to the Industrial 15 Index due October 31, 2008; Strategic Return Notes Linked to the Select Ten Index due September 30, 2008; Nikkei® 225 MITTS® Securities due September 30, 2010; S&P 500 MITTS® Securities due September 3, 2008; Market Recovery Notes Linked to the Nasdaq-100 Index; S&P 500 MITTS® Securities due August 5, 2010; Strategic Return Notes® Linked to the Industrial 15 Index due August 5, 2008; Strategic Return Notes Linked to the Select Ten Index due June 27, 2008; S&P 500 MITTS® Securities due June 3, 2010; Strategic Return Notes Linked to the Select Ten Index due February 28, 2008; MITTS® Securities based upon the Dow Jones Industrial Average℠ due January 16, 2009; MITTS® Securities based upon the Dow Jones Industrial Average℠ due September 29, 2008; S&P 500 MITTS® Securities due August 29, 2008; S&P 500 MITTS® Securities due November 20, 2007;S&P 500 MITTS® Securities due June 29, 2007.

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Selected Financial Data

(dollars in millions, except per share amounts)	2006 (52 weeks)	2005 (52 weeks)	2004 (53 weeks)	2003 (52 weeks)	2002 (52 weeks)
	Year Ended Last Friday in December				
Results of Operations					
Total Revenues	**$ 70,591**	$ 47,796	$ 32,619	$ 27,924	$ 28,361
Less Interest Expense	**35,932**	21,774	10,560	8,024	9,990
Net Revenues	**34,659**	26,022	22,059	19,900	18,371
Non-Interest Expenses	**24,233**	18,791	16,223	14,680	16,059
Earnings Before Income Taxes	**10,426**	7,231	5,836	5,220	2,312
Income Tax Expense	**2,927**	2,115	1,400	1,384	604
Net Earnings	**$ 7,499**	$ 5,116	$ 4,436	$ 3,836	$ 1,708
Net Earnings Applicable to Common Stockholders[1]	**$ 7,311**	$ 5,046	$ 4,395	$ 3,797	$ 1,670
Financial Position					
Total Assets	**$ 841,299**	$ 681,015	$ 628,098	$ 480,233	$ 440,252
Short-Term Borrowings[2]	**284,226**	221,389	180,058	111,727	98,371
Deposits	**84,124**	80,016	79,746	79,457	81,842
Long-Term Borrowings	**181,400**	132,409	119,513	85,178	79,788
Junior Subordinated Notes (related to trust preferred securities)	**3,813**	3,092	3,092	3,203	3,188
Total Stockholders' Equity	**39,038**	35,600	31,370	28,884	24,081
Common Share Data					
(in thousands, except per share amounts)					
Earnings Per Share:					
Basic	**$ 8.42**	$ 5.66	$ 4.81	$ 4.22	$ 1.94
Diluted	**$ 7.59**	$ 5.16	$ 4.38	$ 3.87	$ 1.77
Weighted-Average Shares Outstanding:					
Basic	**868,095**	890,744	912,935	900,711	862,318
Diluted	**962,962**	977,736	1,003,779	980,947	947,282
Shares Outstanding at Year-End	**867,972**	919,201	931,826	949,907	873,780
Book Value Per Share	**$ 41.35**	$ 35.82	$ 32.99	$ 29.96	$ 27.07
Dividends Paid Per Share	**$ 1.00**	$ 0.76	$ 0.64	$ 0.64	$ 0.64
Financial Ratios					
Pre-Tax Profit Margin	**30.1%**	27.8%	26.5%	26.2%	12.6%
Common Dividend Payout Ratio	**11.9%**	13.4%	13.3%	15.2%	33.0%
Return on Average Assets	**0.9%**	0.7%	0.8%	0.8%	0.4%
Return on Average Common Stockholders' Equity	**21.3%**	16.0%	14.9%	14.8%	7.5%
Other Statistics					
Full-Time Employees:					
U.S.	**43,700**	43,200	40,200	38,200	40,000
Non-U.S.	**12,500**	11,400	10,400	9,900	10,900
Total[3]	**56,200**	54,600	50,600	48,100	50,900
Private Client Financial Advisors	**15,880**	15,160	14,140	13,530	14,010
Private Client Assets (dollars in billions)	**$ 1,619**	$ 1,458	$ 1,359	$ 1,267	$ 1,098

(1) Net earnings less preferred stock dividends.
(2) Consists of payables under repurchase agreements and securities loaned transactions and short-term borrowings.
(3) Excludes 100, 200, 100, 200, and 1,500 full-time employees on salary continuation severance at year-end 2006, 2005, 2004, 2003 and 2002, respectively.

Forward-Looking Statements and Non-GAAP Financial Measures

Certain statements in this report may be considered forward-looking, including those about management expectations, strategic objectives, growth opportunities, business prospects, anticipated financial results, the impact of off-balance sheet arrangements, significant contractual obligations, anticipated results of litigation and regulatory investigations and proceedings, and other similar matters. These forward-looking statements represent only Merrill Lynch & Co., Inc.'s ("ML & Co." and, together with its subsidiaries, "Merrill Lynch", "we", "our" or "us") beliefs regarding future performance, which is inherently uncertain. There are a variety of factors, many of which are beyond our control, which affect our operations, performance, business strategy and results and could cause our actual results and experience to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, actions and initiatives taken by both current and potential competitors, general economic conditions, the effects of current, pending and future legislation, regulation and regulatory actions, and the other risks and uncertainties detailed in this report. See "Risk Factors that Could Affect Our Business". Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. We do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. You should, however, consult further disclosures we make in future filings of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

From time to time, we may also disclose financial information on a non-GAAP basis where management uses this information and believes this information will be valuable to investors in gauging the quality of Merrill Lynch's financial performance, identifying trends in our results and providing more meaningful period-to-period comparisons. For a reconciliation of non-GAAP measures presented throughout our Annual Report see Exhibit 99.1 filed with the 2006 Form 10-K.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the Public Reference Room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that we file electronically with the SEC. The SEC's internet site is www.sec.gov.

Our internet address is www.ml.com, and the investor relations section of our website can be accessed directly at www.ir.ml.com. We make available, free of charge, our proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These reports are available through our website as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. We have also posted on our website corporate governance materials including our Guidelines for Business Conduct, Code of Ethics for Financial Professionals, Director Independence Standards, Corporate Governance Guidelines, Related Party Transactions Policy and charters for the committees of our Board of Directors. In addition, our website includes information on purchases and sales of our equity securities by our executive officers and directors, as well as disclosures relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time.

We will post on our website amendments to our Guidelines for Business Conduct and Code of Ethics for Financial Professionals and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange. The information on our website is not incorporated by reference into this Report. You can obtain printed copies of these documents, free of charge, upon written request to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038 or by email at corporate_secretary@ml.com.

Overview

Merrill Lynch was formed in 1914 and became a publicly traded company on June 23, 1971. In 1973, we created the holding company, ML & Co., a Delaware corporation that, through its subsidiaries, is one of the world's leading wealth management, capital markets and advisory companies with offices in 37 countries and territories and total client assets of approximately $1.6 trillion at December 29, 2006. As an investment bank, we are a leading global trader and underwriter of securities and derivatives across a broad range of asset classes, and we serve as a strategic advisor to corporations, governments, institutions and individuals worldwide. In addition, we own a 45% voting interest and approximately half of the economic interest of BlackRock, Inc. ("BlackRock"), one of the world's largest publicly traded investment management companies with approximately $1.1 trillion in assets under management at December 31, 2006.

We conduct our business from various locations throughout the world. Our world headquarters is located in the World Financial Center in New York City, and our other principal United States business and operational centers are located in New Jersey and Florida. Our major geographic regions of operations include the United States; Europe, the Middle East and Africa ("EMEA"); the Pacific Rim; Canada; and Latin America.

Since the fourth quarter of 2006, our business segment reporting reflects the management reporting lines established after the merger of our Merrill Lynch Investment Managers ("MLIM") business with BlackRock on September 29, 2006 (the "BlackRock merger"), as well as the economic and long-term financial performance characteristics of the underlying businesses.

Prior to the fourth quarter of 2006, we reported our business activities in three operating segments: Global Markets and Investment Banking ("GMI"), Global Private Client ("GPC"), and MLIM. Effective with the BlackRock merger, MLIM ceased to exist as a separate business segment. Accordingly, a new business segment, Global Wealth Management ("GWM"), was created, consisting of GPC and Global Investment Management ("GIM"). GWM along with GMI will now be our business segments. We have restated prior period segment information to conform to the current period presentation and, as a result, are presenting GWM as if it had existed for these prior periods. See Note 3 to the Consolidated Financial Statements for further information on segments.

The BlackRock merger closed on the last day of our third fiscal quarter, and as a result, our 2006 results of operations for MLIM include only results through the first nine months of 2006. For more information on the BlackRock merger, refer to Note 2 to the Consolidated Financial Statements.

The following is a description of our business segments, including MLIM, which ceased to exist as a separate business segment effective with the BlackRock merger:

- *GMI,* our institutional business segment, provides trading, capital markets services, investment banking and advisory services to corporations, financial institutions, institutional investors, and governments around the world. GMI's Global Markets division facilitates client transactions and is a market maker in securities, derivatives, currencies, commodities and other financial instruments to satisfy client demands. In addition, GMI also engages in certain proprietary trading activities. Global Markets also provides clients with financing, securities clearing, settlement, and custody services and also engages in principal and private equity investing. GMI's Investment Banking division provides a wide range of securities origination and strategic advisory services for issuer clients, including underwriting and placement of public and private equity, debt and related securities, as well as lending and other financing activities for clients globally. These services also include advising clients on strategic issues, valuation, mergers, acquisitions and restructurings. In 2006, GMI generated 57% of our net revenues and 65% of our pre-tax earnings. GMI's growth strategy entails a program of investments in personnel and technology to gain further scale in certain asset classes and geographies.
- *GWM,* our full-service retail wealth management segment, provides brokerage, investment advisory and financial planning services, offering a broad range of both proprietary and third-party wealth management products and services globally to individuals, small- to mid-size businesses, and employee benefit plans. Within the GPC division, most of our services are delivered by our Financial Advisors ("FAs") through a global network of branch offices. GPC's offerings include commission and fee-based investment accounts; banking, cash management, and credit services, including consumer and small business lending and Visa® cards; trust and generational planning; retirement services; and insurance products. GWM's GIM division includes a business that creates and manages hedge fund and other alternative investment products for GPC clients, and Merrill Lynch's share of net earnings from its ownership positions in other investment management companies, including our investment in BlackRock. In 2006, GWM generated 37% of our net revenues and 28% of our pre-tax earnings. GWM's growth priorities include continued growth in client assets, the hiring of additional FAs, client segmentation, annuitization of revenues through fee-based products, diversification of revenues through adding products and services, investments in technology to enhance productivity and efficiency, and disciplined expansion into additional geographic areas globally.
- *MLIM,* our asset management segment through the third quarter of 2006 and prior to the BlackRock merger, offered a wide range of investment management capabilities to retail and institutional investors through proprietary and third-party distribution channels globally. Asset management capabilities included equity, fixed income, money market, index, enhanced index and alternative investments, which were offered through vehicles such as mutual funds, privately managed accounts, and retail and institutional separate accounts. In 2006, MLIM generated 6% of our net revenues and 7% of our pre-tax earnings, which reflects its results only for the first nine months of 2006 prior to the BlackRock merger.

We also provide a variety of research services on a global basis through our Global Securities Research & Economics Group. These services are at the core of the value proposition we offer to institutional and individual client sales forces and their customers, and are an integral component of the product offering to GMI and GWM clients. This group distributes research focusing on four main disciplines globally: fundamental equity research, fixed income and equity-linked research, economics and foreign exchange research and investment strategy research. We consistently rank among the leading research providers in the industry, and our analysts and other professionals cover approximately 3,000 companies.

We are a Consolidated Supervised Entity ("CSE") and subject to group-wide supervision by the SEC. As a CSE, we compute our allowable capital and allowances and permit the SEC to examine the books and records of the holding company and any subsidiary that does not have a principal regulator; and we have adopted various additional SEC reporting, record-keeping, and notification requirements. We are in compliance with applicable CSE standards. Being a CSE has imposed additional costs, although not material to date, and has introduced new requirements to monitor capital adequacy. In respect of the European Union ("EU") Financial Conglomerates (or "Financial Groups") Directive, the U.K. Financial Services Authority ("FSA") has determined that the SEC undertakes equivalent consolidated supervision for Merrill Lynch.

Risk Factors that Could Affect Our Business

In the course of conducting our business operations, we could be exposed to a variety of risks that are inherent to the financial services business. A summary of some of the significant risks that could affect our financial condition and results of operations is included below. Some of these risks are managed in accordance with established risk management policies and procedures, most of which are described in the Risk Management section of the Management's Discussion and Analysis.

Market Risk

Our business may be adversely impacted by global market and economic conditions that may cause fluctuations in interest rates, exchange rates, equity and commodity prices and credit spreads. We are exposed to potential changes in the value of financial instruments caused by fluctuations in interest rates, exchange rates, equity and commodity prices, credit spreads, and/or other risks. These fluctuations may result from changes in economic conditions, monetary and fiscal policies, the liquidity of global markets, availability and cost of capital, international and regional political events, acts of war or terrorism and investor sentiment. We have a large and increasing amount of proprietary trading and investment positions, which include proprietary trading positions in fixed income, currency, commodities and equity securities, as well as in real estate, private equity and other investments. We may incur losses as a result of increased market volatility, as these fluctuations may adversely impact the valuation of our trading and investment positions. Conversely, a decline in volatility may adversely affect the results in our trading business, which depend on market volatility to create client and proprietary trading opportunities.

Credit Risk

Our business may be adversely impacted by an increase in our credit exposure related to trading, lending, and other business activities. We are exposed to the potential for credit-related losses that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. These credit exposures exist within lending relationships, commitments, letters of credit, derivatives, foreign exchange and other transactions. These exposures may arise, for example, from a decline in the financial condition of a counterparty, from entering into swap or other derivative contracts under which counterparties have obligations to make payments to us, from a decrease in the value of securities of third parties that we hold as collateral, or from extending credit to clients through loans or other arrangements. As our credit exposure increases, it could have an adverse effect on our business and profitability if material unexpected credit losses occur.

Liquidity Risk

Our business and financial condition may be adversely impacted by an inability to borrow funds or sell assets to meet maturing obligations. We are exposed to liquidity risk, which is the potential inability to repay short-term borrowings with new borrowings or assets that can be quickly converted into cash while meeting other obligations and continuing to operate as a going concern. Our liquidity may be impaired due to circumstances that we may be unable to control, such as general market disruptions or an operational problem that affects our trading clients or ourselves. Our ability to sell assets may also be impaired if other market participants are seeking to sell similar assets at the same time. Our inability to borrow funds or sell assets to meet maturing obligations, a negative change in our credit ratings that would have an adverse effect on our ability to borrow funds, or regulatory capital restrictions imposed on the free flows of funds between us and our subsidiaries may have a negative effect on our business and financial condition.

Operational Risk

We may incur losses due to the failure of people, internal processes and systems or from external events. Our business may be adversely impacted by operational failures or from unfavorable external events. We are exposed to the risk of loss resulting from the failure of people, internal processes and systems or from external events. Such operational risks may include, exposure to theft and fraud, improper business practices, client suitability and servicing risks, product complexity and pricing risk or from improper recording, evaluating or accounting for transactions. We could suffer financial loss, disruption of our business, liability to clients, regulatory intervention or reputational damage from such events, which would affect our business and financial condition.

Litigation Risk

Legal proceedings could adversely affect our operating results for a particular period and impact our credit ratings. We have been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising in connection with our activities as a global diversified financial services institution. Some of the legal actions against us include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers who would otherwise be the primary defendants are bankrupt or otherwise in financial distress. Given the number of these matters, some are likely to result in adverse judgments, penalties, injunctions, fines, or other relief. We are also involved in investigations and/or proceedings by governmental and self-regulatory agencies.

We may explore potential settlements before a case is taken through trial because of uncertainty, risks, and costs inherent in the litigation process. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies*, we will accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many lawsuits and arbitrations, including almost all of the class action lawsuits disclosed in "Other Information (Unaudited) — Legal Proceedings", it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, we cannot predict what the eventual loss or range of loss related to such matters will be. Potential losses may be material to our operating results or cash flows for any particular period and may impact our credit ratings.

Regulatory and Legislative Risks

Many of our businesses are highly regulated and could be impacted, and in some instances adversely impacted, by regulatory and legislative initiatives around the world. Our business may be affected by various U.S. and non-U.S. legislative bodies and regulatory and exchange authorities, such as federal and state securities and bank regulators including the SEC, the FSA, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision ("OTS"), and the Utah Department of Finance Institutions, and self-regulatory organizations including The New York Stock Exchange, Inc. ("NYSE"), the National Association of Securities Dealers, Inc. ("NASD"), the Commodity Futures Trading Commission ("CFTC") and industry participants that continue to review and, in many cases, adopt changes to their established rules and policies. Such changes have occurred in areas such as corporate governance, anti-money laundering, privacy, research analyst conflicts of interest and qualifications, practices related to the issuance of securities, mutual fund trading, disclosure practices and auditor independence.

Competitive Environment

Competitive pressures in the financial services industry could adversely affect our business and results of operations. We compete globally for clients on the basis of price, the range of products that we offer, the quality of our services, our financial resources, and product and service innovation. The financial services industry continues to be affected by an intensifying competitive environment, as demonstrated by the introduction of new technology platforms, consolidation through mergers, increased competition from new and established industry participants and diminishing margins in many mature products and services. We compete with U.S. and non-U.S. commercial banks and other broker-dealers in brokerage, underwriting, trading, financing and advisory businesses. For example, the financial services industry in general, including us, has experienced intense price competition in brokerage, as the ability to execute trades electronically, through the internet and through other alternative trading systems has pressured trading commissions and spreads. Many of our non-U.S. competitors may have competitive advantages in their home markets. In addition, our business is substantially dependent on our continuing ability to compete effectively to attract and retain qualified employees, including successful FAs, investment bankers, trading professionals and other revenue-producing or support personnel.

For further information on Risks refer to Note 6 to the Consolidated Financial Statements.

Critical Accounting Policies and Estimates

Use of Estimates

In presenting the Consolidated Financial Statements, our management makes estimates regarding:

- Valuations of assets and liabilities requiring fair value estimates including:
  - Trading inventory and investment securities;
  - Private equity and principal investments;
  - Loans and allowance for loan losses;
- The outcome of litigation;
- The realization of deferred tax assets and tax reserves;
- Assumptions and cash flow projections used in determining whether variable interest entities ("VIEs") should be consolidated and the determination of the qualifying status of special purpose entities ("QSPEs");
- The carrying amount of goodwill and other intangible assets;
- The amortization period of intangible assets with definite lives;
- Valuation of share-based payment compensation arrangements;
- Insurance reserves and recovery of insurance deferred acquisition costs; and
- Other matters that affect the reported amounts and disclosure of contingencies in the financial statements.

Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Consolidated Financial Statements, and it is possible that such changes could occur in the near term. For more information regarding the specific methodologies used in determining estimates, refer to Use of Estimates in Note 1 to the Consolidated Financial Statements.

The following is a summary of our critical accounting policies and estimates.

Valuation of Financial Instruments

Proper valuation of financial instruments is a critical component of our financial statement preparation. Fair values for exchange-traded securities and certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, and directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services, while taking into account the counterparty's credit ratings, or our own credit ratings as appropriate.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the Consolidated Financial Statements. For long-dated and illiquid contracts, we apply extrapolation methods to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables us to mark-to-market all positions consistently when only a subset of prices is directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging the risk and other trades in the market. As the markets for these products develop, we continually refine our pricing models based on experience to correlate more closely to the market risk of these instruments. Obtaining the fair value for OTC derivative contracts requires the use of management judgment and estimates. At the inception of the contract, unrealized gains for these instruments are not recognized unless significant inputs to the valuation model are observable in the market.

We hold investments that may have quoted market prices but that are subject to restrictions (e.g., consent of the issuer or other investors to sell) that may limit our ability to realize the quoted market price. Accordingly, we estimate the fair value of these securities based on management's best estimate, which incorporates pricing models based on projected cash flows, earnings multiples, comparisons based on similar market transactions and/or review of underlying financial conditions and other market factors.

Valuation adjustments are an integral component of the mark-to-market process and may be taken where either the sheer size of the trade or other specific features of the trade or particular market (such as counterparty credit quality, concentration or market liquidity) requires adjustment to the values derived from the pricing models.

Because valuation may involve significant estimation where readily observable prices are not available, we have categorized our financial instruments based on liquidity of the instrument and the amount of estimation we make when determining its value as recorded in the Consolidated Financial Statements. In preparing the categorization, we have made estimates regarding the allocation of netting adjustments permitted under FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, and other adjustments.

Assets and liabilities recorded on the Consolidated Balance Sheets can be broadly categorized as follows:

Category 1. Highly liquid cash, securities and derivative instruments, primarily carried at fair value, for which quoted market prices are readily available (for example, exchange-traded equity securities, certain listed options, and U.S. Government securities).

Category 2. Liquid instruments, primarily carried at fair value, including:

a) Cash instruments for which quoted prices are available but which trade less frequently such that there may not be complete pricing transparency for these instruments across all market cycles (for example, corporate and municipal bonds and certain physical commodities);

b) Derivative instruments that are valued using a model, where inputs to the model are directly observable in the market (for example, U.S. dollar interest rate swaps); and

c) Instruments that are priced with reference to financial instruments whose parameters can be directly observed (for example, certain mortgage loans).

Category 3. Less liquid instruments that are valued using management's best estimate of fair value, and instruments which are valued using a model, where either the inputs to the model and/or the models themselves require significant judgment by management. Areas where these valuation methodologies are primarily applied include private equity investments, long-dated or complex derivatives such as certain

foreign exchange options and credit default swaps, and distressed debt and commodity derivatives, such as long-dated options on gas and power and weather derivatives. In applying these models, we consider such factors as projected cash flows, market comparables, volatility, and various market inputs.

At December 29, 2006 and December 30, 2005, certain assets and liabilities on the Consolidated Balance Sheets can be categorized using the above classification scheme as follows:

(dollars in millions)

2006	Category 1	Category 2	Category 3	Total
Assets				
Trading assets, excluding contractual agreements	**$ 76,519**	**$ 91,446**	**$ 3,970**	**$ 171,935**
Contractual agreements	**4,974**	**23,698**	**3,241**	**31,913**
Investment securities[1] [2]	**6,239**	**62,279**	**14,892**	**83,410**
Liabilities				
Trading liabilities, excluding contractual agreements	**$ 49,068**	**$ 11,441**	**$ 42**	**$ 60,551**
Contractual agreements	**6,633**	**22,703**	**8,975**	**38,311**
2005				
Assets				
Trading assets, excluding contractual agreements	$ 56,556	$ 63,344	$ 2,594	$ 122,494
Contractual agreements	5,008	18,177	3,031	26,216
Investment securities[1]	6,115	54,805	8,353	69,273
Liabilities				
Trading liabilities, excluding contractual agreements	$ 48,688	$ 11,248	$ 242	$ 60,178
Contractual agreements	4,623	17,490	6,642	28,755

(1) Includes investments that are not carried at fair value. See Note 5 to the Consolidated Financial Statements for additional information on investment securities.
(2) The increase in category 3 investment securities from year-end 2005 to year-end 2006 primarily relates to increases in private equity investments.

In addition, other trading-related assets recorded in the Consolidated Balance Sheets at year-end 2006 and 2005 include $297.0 billion and $255.5 billion, respectively, of receivables under resale agreements and receivables under securities borrowed transactions. Trading-related liabilities recorded in the Consolidated Balance Sheets at year-end 2006 and 2005 include $266.1 billion and $212.4 billion, respectively, of payables under repurchase agreements and payables under securities loaned transactions. We have recorded these securities financing transactions at their contractual amounts, which approximate fair value, and little or no estimation is required by management.

Litigation

We have been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising in connection with our activities as a global diversified financial services institution. We are also involved in investigations and/or proceedings by governmental and self-regulatory agencies. In accordance with SFAS No. 5, *Accounting for Contingencies*, we will accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many lawsuits and arbitrations, including class action lawsuits, it is not possible for us to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, we cannot predict what the eventual loss or range of loss related to such matters will be. See Note 12 to the Consolidated Financial Statements and Other Information (Unaudited) — Legal Proceedings for further information.

Variable Interest Entities

In the normal course of business, we enter into a variety of transactions with VIEs. We are required by the applicable accounting guidance to perform a qualitative and/or quantitative analysis of each new VIE at inception to determine whether we are the primary beneficiary of the VIE and therefore must consolidate the VIE. In performing this analysis, we make assumptions regarding future performance of assets held by the VIE, taking into account estimates of credit risk, estimates of the fair value of assets, timing of cash flows, and other significant factors. Although a VIE's actual results may differ from projected outcomes, a revised consolidation analysis is generally not required subsequent to the initial assessment. If a VIE meets the conditions to be considered a QSPE, we are not typically required to consolidate the QSPE in our financial statements. A QSPE's activities must be significantly limited. A servicer of the assets held by a QSPE may have discretion in restructuring or working out assets held by the QSPE as long as the discretion is significantly limited and the parameters of that discretion are fully described in the legal documents that established the QSPE. Determining whether the activities of a QSPE and its servicer meet these conditions requires the use of judgment by management.

Income Taxes

Merrill Lynch is under examination by the Internal Revenue Service ("IRS") and other tax authorities including Japan and the United Kingdom, and states in which Merrill Lynch has significant business operations, such as New York. The tax years under examination vary by jurisdiction. An IRS examination covering the years 2001–2003 was completed in 2006, subject to the resolution of the Japanese issue discussed below. As previously disclosed, there were carryback claims from the years 2001 and 2002 which were under Joint Committee review. During the third quarter of 2006, Merrill Lynch received notice that the Joint Committee had not taken exception and the refund claims have now been received. As a result, Merrill Lynch's 2006 effective tax rate reflects a $296 million reduction in the tax provision. IRS audits are also in progress for the tax years 2004–2006. The IRS field audit for the 2004 and 2005 tax years is expected to be completed in 2007. New York State and City audits for the years 1997–2001 were also completed in 2006 and did not have a material impact on the Consolidated Financial Statements. In the second quarter of 2005, Merrill Lynch paid a tax assessment from the Tokyo Regional Tax Bureau for the years 1998–2002. The assessment reflected the Japanese tax authority's view that certain income on which Merrill Lynch previously paid income tax to other international jurisdictions, primarily the United States, should have been allocated to Japan. Merrill Lynch has begun the process of obtaining clarification from international authorities on the appropriate allocation of income among multiple jurisdictions to prevent double taxation. Merrill Lynch regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which Merrill Lynch believes to be adequate in relation to the potential for additional assessments. However, there is a reasonable possibility that additional amounts may be incurred. The estimated additional possible amounts are no more than $120 million. Merrill Lynch adjusts the level of reserves and the reasonably possible amount when there is more information available, or when an event occurs requiring a change. The reassessment of tax reserves could have a material impact on Merrill Lynch's effective tax rate in the period in which it occurs.

Business Environment(1)

Global financial markets performed well for most of 2006 as the U.S. Federal Reserve System's Federal Open Market Committee ("FOMC") ended its two-year campaign of raising interest rates. This, coupled with a fourth consecutive year of double-digit percentage growth in corporate profits and falling oil prices, supported a U.S. stock market surge in the second half of the year. The U.S. economy performed well as the gross domestic product increased slightly compared to 2005, despite a significant slowdown in the housing market and a lower rate of consumer spending. Non-U.S. markets outperformed U.S. markets. Increased global liquidity fueled significant merger and acquisition ("M&A") activity and share buy-back activity. Long-term interest rates, as measured by the yield on the 10-year U.S. Treasury bond, began 2006 at 4.39%, rose during the middle of the year, then retreated to end the year at 4.71%. Long-term interest rates were below short-term interest rates for the majority of 2006, and the FOMC raised the federal funds rate from 4.25% to 5.25%, with its last increase in July 2006.

U.S. equity markets performed well for most of 2006 with all major U.S. equity indices increasing for the year, despite a pronounced downturn in the financial markets from mid-May through August. The Dow Jones Industrial Average, Standard & Poor's 500 Index and the Nasdaq Composite Index rose 16.3%, 13.6% and 9.5%, respectively.

Non-U.S. equity markets generally outperformed those in the U.S. The Dow Jones World Index, excluding the United States, rose 23% during the year in dollar terms. European stocks had a solid performance in 2006 as the Dow Jones Stoxx 50 index and the FTSE 100 index rose 10% and 11%, respectively. Despite a significant decline in emerging markets around the middle of the year, India and China posted strong gains for the full year with the Bombay Sensex index and the Hang Seng index increasing 47% and 34%, respectively. The Dow Jones China 88 index, a measure of China's largest and most traded stocks, rose 97% for the year. Japan's Nikkei Stock Average rose 7%, making it one of the weaker performing equity markets in 2006, primarily resulting from a weaker than anticipated economic recovery.

U.S. equity trading volumes for 2006 were higher than in 2005. On the NYSE and the Nasdaq both the dollar volume of shares and the number of shares traded increased compared to the prior year. U.S. equity market volatility was mixed, as measured by the VIX and QQV volatility indices.

Global debt underwriting volumes increased to $6.5 trillion, up 9% from 2005, while global equity underwriting volumes of $735 billion were up 29% from 2005. The value of global initial public offerings was a record $214 billion in 2006.

Global M&A activity increased significantly in 2006 with the total value of announced deals rising 35% to $4.0 trillion, making it the most active year since 2000. The total value of global completed M&A activity was $3.4 trillion, 34% higher than in 2005.

(1) Debt and equity underwriting and merger and acquisition statistics were obtained from Dealogic.

Results of Operations

(dollars in millions, except per share amounts)	2006[1]	2005	2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
Net revenues					
Principal transactions	**$ 7,034**	$ 3,545	$ 2,197	98%	61%
Managed accounts and other fee-based revenues	**6,539**	6,031	5,440	8	11
Commissions	**5,952**	5,219	4,720	14	11
Investment banking	**4,680**	3,797	3,473	23	9
Revenues from consolidated investments	**570**	438	346	30	27
Other	**3,259**	2,195	1,454	48	51
Subtotal	**28,034**	21,225	17,630	32	20
Interest and dividend revenues	**40,588**	26,571	14,989	53	77
Less interest expense	**35,932**	21,774	10,560	65	106
Net interest profit	**4,656**	4,797	4,429	(3)	8
Gain on merger	**1,969**	–	–	N/M	N/M
Total net revenues	**34,659**	26,022	22,059	33	18
Non-interest expenses					
Compensation and benefits	**17,003**	12,441	10,663	37	17
Communications and technology	**1,844**	1,608	1,461	15	10
Brokerage, clearing, and exchange fees	**1,097**	856	773	28	11
Occupancy and related depreciation	**998**	938	893	6	5
Professional fees	**884**	727	715	22	2
Advertising and market development	**692**	599	533	16	12
Expenses of consolidated investments	**380**	258	231	47	12
Office supplies and postage	**226**	210	203	8	3
Other	**1,109**	1,154	751	(4)	54
Total non-interest expenses	**24,233**	18,791	16,223	29	16
Earnings before income taxes	**10,426**	7,231	5,836	44	24
Income tax expense	**2,927**	2,115	1,400	38	51
Net earnings	**$ 7,499**	$ 5,116	$ 4,436	47	15
Earnings per common share					
Basic	**$ 8.42**	$ 5.66	$ 4.81	49	18
Diluted	**$ 7.59**	$ 5.16	$ 4.38	47	18
Return on average common stockholders' equity	**21.3%**	16.0%	14.9%		
Pre-tax profit margin	**30.1%**	27.8%	26.5%		
Compensation and benefits as a percentage of net revenues	**49.1%**	47.8%	48.3%		
Non-compensation expenses as a percentage of net revenues	**20.9%**	24.4%	25.2%		
Book value per share	**$ 41.35**	$ 35.82	$ 32.99	15	9

N/M = Not Meaningful

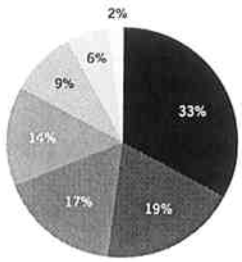
(1) Includes the one-time first quarter compensation expenses associated with the adoption of SFAS No. 123 as revised in 2004, *Share-Based Payment*, a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123R") and the third quarter positive net impact from the closing of the BlackRock merger. For more information on SFAS No. 123R or the BlackRock merger, refer to Notes 1 and 2, respectively, to the Consolidated Financial Statements.

Consolidated Results of Operations

Our net earnings per diluted share were a record $7.59 in 2006 up 47% from $5.16 in 2005. Net earnings were a record $7.5 billion in 2006, up 47% from 2005 on net revenues of $34.7 billion, an increase of 33% from 2005. The 2006 results included the net gain arising from the closing of the BlackRock merger during the third quarter, which was essentially offset by one-time non-cash compensation costs arising from modifications to the retirement eligibility requirements for existing stock-based employee compensation awards and the adoption of SFAS No. 123R, recorded in the first quarter.

These items, in aggregate, increased both full year net revenues and non-interest expenses by approximately $2.0 billion, resulting in a negative net impact to 2006 net earnings of $72 million, or $0.09 per diluted share. See Exhibit 99.1, filed with our 2006 Form 10-K, for further information on these one-time items.

The following chart illustrates the composition of net revenues by category in 2006:



2006 Net Revenues by Category

- Principal Transactions and Net Interest Profit
- Managed Accounts and Other Fee-based Revenues
- Commissions
- Investment Banking
- Other
- Gain on Merger
- Revenues from Consolidated Investments

2006 compared to 2005

Principal transactions revenues include realized gains and losses from the purchase and sale of securities, such as equity securities and fixed income securities including government bonds and municipal securities, in which we act as principal, as well as unrealized gains and losses on trading assets and liabilities, including commodities, derivatives, and loans. Principal transactions revenues were $7.0 billion, 98% higher than a year ago, due primarily to increased revenues from trading of fixed income, currency, commodity and equity products with the strongest increases coming from credit products, commodities and proprietary trading. These increases reflect higher client flows, increased proprietary trading activities and the impact of overall higher markets during most of 2006.

Net interest profit is a function of (i) the level and mix of our total assets and liabilities, including trading assets owned, deposits, financing and lending transactions and trading strategies associated with our institutional securities business, and (ii) the prevailing level, term structure and volatility of interest rates. Net interest profit is an integral component of our trading activity. In assessing the profitability of our client facilitation and trading activities, we view principal transactions and net interest profit in the aggregate as net trading revenues. Changes in the composition of trading inventories and hedge positions can cause the mix of principal transactions and net interest profit to fluctuate. Net interest profit was $4.7 billion, down 3% from 2005, due primarily to the impact of rising rates on municipal and equity derivatives and increased interest expense from higher long-term borrowings and funding charges, partially offset by higher short-term interest rates on deposit spreads earned.

Managed accounts and other fee-based revenues primarily consist of asset-priced portfolio service fees earned from the administration of separately managed and other investment accounts for retail investors, annual account fees, and certain other account-related fees. In addition, until the BlackRock merger at the end of the third quarter of 2006, managed accounts and other fee-based revenues also included fees earned from the management and administration of retail mutual funds and institutional funds such as pension assets, and performance fees earned on certain separately managed accounts and institutional money management arrangements. Managed accounts and other fee-based revenues were $6.5 billion, up 8% from 2005. The increase is mainly due to higher portfolio service fees reflecting the impact of net inflows into annuitized-revenue accounts as well as higher equity market values. As a result of the BlackRock merger, managed accounts and other fee-based revenues only reflect nine months of operations associated with MLIM for 2006. For more information on the BlackRock merger, please refer to Note 2 to the Consolidated Financial Statements.

Commissions revenues primarily arise from agency transactions in listed and OTC equity securities and commodities, insurance products and options. Commissions revenues also include distribution fees for promoting and distributing mutual funds ("12b-1 fees") and hedge funds, as well as contingent deferred sales charges earned when a shareholder redeems shares prior to the end of the required holding period. Commissions revenues were $6.0 billion, up 14% from 2005, due primarily to a global increase in client transaction volumes, particularly in listed equities and mutual funds.

Investment banking revenues include (i) origination revenues representing fees earned from the underwriting of debt, equity and equity-linked securities, as well as loan syndication and commitment fees and (ii) strategic advisory services revenues including merger and acquisition and other investment banking advisory fees. Investment banking revenues were $4.7 billion, up 23% from 2005, reflecting increases in both debt and equity origination revenues as well as increases in merger and acquisition advisory revenues, driven by increased overall activity.

Other revenues include realized investment gains and losses, distributions on cost method investments, fair value adjustments on private equity investments that are held for capital appreciation and/or current income, gains related to the sale of mortgages, write-downs of certain available-for-sale securities, and translation gains and losses on foreign denominated assets and liabilities. Other revenues were $3.3 billion in 2006, up 48% from 2005 due primarily to higher revenues from private equity businesses and gains from the sale of mortgages and other loans, partially offset by lower net foreign exchange gains.

The gain on merger was $2.0 billion for 2006. This gain entirely relates to the BlackRock merger. For more information on this merger, refer to Note 2 to the Consolidated Financial Statements.

Revenues from consolidated investments include revenues from investments that are consolidated under SFAS No. 94, *Consolidation of All Majority-owned Subsidiaries* and FASB Interpretation No. 46, *Consolidation of Variable Interest Entities – an interpretation of APB No. 51* ("FIN 46R"). Revenues from consolidated investments were $570 million, up 30% from 2005, reflecting higher investment gains and additional investments.

Compensation and benefits expenses were $17.0 billion in 2006, up 37% from a year-ago, reflecting higher incentive compensation accruals associated with increased net revenues, as well as higher staffing levels. Our 2006 compensation and benefit expenses also reflect the non-cash compensation expenses incurred in the first quarter of 2006 of $1.8 billion related to the adoption of SFAS No. 123R. Compensation and benefits expenses were 49.1% of net revenues for 2006, as compared to 47.8% a year ago. Excluding the one-time impacts related to the adoption of SFAS No. 123R and the BlackRock merger, compensation and benefits were 46.2% of net revenues. See Exhibit 99.1, filed with 2006 Form 10-K, for a reconciliation of non-GAAP measures. The compensation ratio depends on the absolute level of net revenues, the business mix underlying those revenues and industry compensation trends.

Non-compensation expenses were $7.2 billion in 2006, up 14% from 2005. Communications and technology costs were $1.8 billion, up 15% from 2005, due primarily to costs related to technology investments for growth, including acquisitions, and higher market information and communications costs. Brokerage, clearing and exchange fees were $1.1 billion, up 28% from 2005, mainly due to increased transaction volumes. Professional fees were $884 million, up 22% from 2005, reflecting higher legal and consulting fees primarily associated with increased business activity levels. Advertising and market development expenses were $692 million, up 16% from 2005, due primarily to higher travel expenses associated with increased business activity levels and increased sales promotion and advertising costs. Expenses of consolidated investments were $380 million, up from $258 million in 2005, principally due to increased minority interest expenses associated with related increased revenues from consolidated investments.

2005 compared to 2004

Net revenues in 2005 were $26.0 billion, 18% higher than in 2004. Managed accounts and other fee-based revenues in 2005 were $6.0 billion, up 11%, reflecting the impact of net inflows into annuitized-revenue products, and the increase in managed account fees which reflects the impact of net inflows of higher-yielding assets as well as higher equity market values. Principal transactions revenues in 2005 increased 61%, to $3.5 billion, due primarily to increased revenues from trading of debt and equity products, as well as our addition of the commodities business, which was acquired in November 2004. Commission revenues in 2005 were $5.2 billion, up 11% due primarily to a global increase in client transaction volumes, particularly in listed equities and mutual funds. Net interest profit in 2005 was $4.8 billion, up 8% due primarily to the impact of rising short-term interest rates on deposit spreads earned. Investment banking revenues of $3.8 billion in 2005 increased 9% from 2004 due to increased M&A advisory revenues as well as higher debt origination fees. Revenues from consolidated investments were $438 million, up from $346 million in 2004 reflecting higher investment gains. Other revenues were $2.2 billion, up from $1.5 billion due primarily to higher revenues in principal investing and private equity businesses.

Compensation and benefits expenses were $12.4 billion in 2005, up 17% from 2004 reflecting higher incentive compensation accruals associated with increased net revenues, as well as higher staffing levels. Compensation and benefits expenses were 47.8% of net revenues in 2005, compared to 48.3% of net revenues in 2004.

Non-compensation expenses were $6.4 billion in 2005, 14% higher than 2004. Communications and technology costs were $1.6 billion, up 10%, due primarily to higher system consulting costs related to investments for growth, including acquisitions, and higher market information and communications costs. Other expenses were $1.2 billion, up from $751 million in 2004, primarily reflecting higher litigation provisions.

Income Taxes

Our 2006 income tax provision was $2.9 billion representing a 28.1% effective tax rate compared with 29.2% in 2005 and reflected a $296 million reduction in the tax provision arising from carry-back claims covering the years 2001 and 2002. Our 2005 tax provision was $2.1 billion and the effective tax rate increased from the 2004 rate of 24.0% reflecting the net impact of the business mix, tax settlements, and $97 million of tax associated with the repatriation of $1.8 billion of foreign earnings. We have recorded deferred tax assets and liabilities for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the Consolidated Financial Statements. We assess our ability to realize deferred tax assets within each jurisdiction, primarily based on a strong earnings history and other factors as discussed in SFAS No. 109, *Accounting for Income Taxes*. During the last 10 years, average annual pre-tax earnings were $4.5 billion. Accordingly, management believes that it is more likely than not those remaining deferred tax assets, net of the remaining related valuation allowance, will be realized. See Note 15 to the Consolidated Financial Statements for further information.

Business Segments

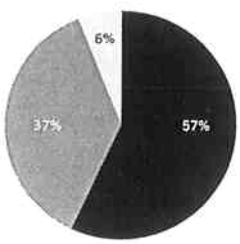
The following discussions provide details of the operating performance for each of our business segments, as well as details of products and services offered. The discussion also includes details of net revenues by segment. Since the fourth quarter of 2006, our business segment reporting reflects the management reporting lines established as a result of the BlackRock merger, as well as the economic and long-term financial performance characteristics of the underlying businesses.

Prior to the fourth quarter of 2006, we reported our business activities in three operating segments: GMI, GPC, and MLIM. Effective with the BlackRock merger, MLIM ceased to exist as a separate business segment. Accordingly, a new business segment, GWM, was created, consisting of GPC and GIM. We have restated all prior period segment information to conform to the current period presentation. See Note 3 to the Consolidated Financial Statements for further information on segments.

The BlackRock merger closed the last day of the third fiscal quarter, and as a result, our 2006 results of operations for MLIM include only results through the first nine months of 2006. For more information on the BlackRock merger, refer to Note 2 to the Consolidated Financial Statements.

The following segment results represent the information that is relied upon by management in its decision-making processes. These results exclude corporate items. Prior year business segment results are restated to reflect reallocations of revenues and expenses that result from changes in our business strategy and organizational structure. Revenues and expenses associated with inter-segment activities are recognized in each segment. In addition, revenue and expense sharing agreements for joint activities between segments are in place, and the results of each segment reflect their agreed-upon apportionment of revenues and expenses associated with these activities. See Note 3 to the Consolidated Financial Statements for further information.

The following chart depicts our 2006 net revenues by segment, excluding corporate items. The MLIM information reflects net revenues for the first nine months of 2006.



2006 Net Revenues by Segment

- GMI
- GWM
- MLIM

Global Markets and Investment Banking

GMI provides trading, capital markets services, and investment banking services to issuer and investor clients around the world. Global Markets makes a market in securities, derivatives, currencies, and other financial instruments to satisfy client demands. In addition, GMI engages in certain proprietary trading activities. The Global Markets division combines the fixed income, currencies, commodities, and equity sales and trading activities for investor clients, while the Investment Banking division provides a wide range of origination and strategic advisory services for issuer clients. Global Markets is a leader in the global distribution of fixed income, currency and energy commodity products and derivatives. Global Markets also has one of the largest equity trading operations in the world and is a leader in the origination and distribution of equity and equity-related products. Further, Global Markets provides clients with financing, securities clearing, settlement, and custody services and also engages in principal investing in a variety of asset classes and private equity investing. The Investment Banking division raises capital for its clients through underwritings and private placements of equity, debt and related securities, and loan syndications. Investment Banking also offers advisory services to clients on strategic issues, valuation, mergers, acquisitions and restructurings.

Global Markets

Global Markets revenues are reported in two major categories based on asset class: Fixed Income, Currencies and Commodities ("FICC") and Equity Markets. These categories include the following businesses:

Fixed Income, Currencies and Commodities

FICC includes the following groups:

- *Global Credit* — responsible on a global basis for credit trading of money market instruments, investment grade debt, credit derivatives, structured credit products, syndicated loans, high-yield debt, distressed and emerging markets debt, as well as collateralized mortgage obligations, asset-backed securities trading, and pass-through mortgage obligations trading;

- *Global Commercial Real Estate* — responsible on a global basis for secured commercial real estate lending, securitizations related to these transactions, as well as principal and equity investments in real estate;
- *Global Structured Finance & Investments* — responsible for asset-based lending, residential real estate lending, servicing and securitizations related to these transactions, asset-liability management for the investment securities portfolios of our bank subsidiaries, as well as principal and equity investments in other secured assets;
- *Global Rates* — responsible on a global basis for sales and trading activities for interest rate derivatives, U.S. government and other federal agency securities, obligations of other sovereigns, municipal securities, repurchase and resale financing and debt financial futures and options;
- *Global Foreign Exchange* — responsible on a global basis for sales and trading activities for currency, exotic options, forwards and local currency trading; and
- *Global Commodities* — responsible for energy and weather risk management, as well as marketing and trading of natural gas, power, oil, coal, metals, emissions, crude, refined products, natural gas liquids and commodity indices on a global basis.

Equity Markets

Equity Markets includes the following groups:

- *Global Cash Equity Trading* — responsible for our full-service cash equity trading and portfolio and electronic trading capabilities on a global basis;
- *Global Equity-Linked* — responsible for trading activities in equity-linked derivatives including exchange-traded options, convertible securities, financial futures and structured products on a global basis;
- *Global Markets Financing and Services* — responsible for equity financing and services, including prime brokerage, stock lending, money manager services and clearing, settlement and custody functions;
- *Strategic Risk* — responsible for proprietary risk trading that encompasses both qualitative and quantitative strategies across multiple asset classes on a global basis; and
- *Global Private Equity* — executes private equity investments and manages these assets primarily for its own account and for that of certain investment partnerships, including employee partnerships.

Investment Banking

Investment Banking includes the following groups:

- *Country/Sector Coverage* — responsible for all origination and advisory activities, across countries and sectors, on behalf of issuer clients;
- *Corporate Finance* — responsible for structured product capabilities, financial product development and commodities origination;
- *Equity Capital Markets* — responsible for all capital related activities for issuer clients generated in the equity markets, including convertible securities and equity derivative products;
- *Debt Capital Markets* — responsible for all capital related activities for issuer clients generated in the high-grade debt markets including derivative products, liability management, private placements, money markets, and structured transactions;
- *Leveraged Finance* — responsible for all financing activities for non-investment grade issuer clients, including high-yield bonds and syndicated loans;
- *Mergers and Acquisitions* — responsible for advising corporate clients regarding strategic alternatives, divestitures, mergers, acquisition and restructuring activities; and
- *Executive Client Coverage* — senior client relationship managers who focus exclusively on strengthening relationships and maximizing opportunities with key clients.

GMI's 2006 Developments

During 2006, our GMI business generated record-setting financial performance by continuing to serve clients well, take measured principal risk and execute on a variety of key growth initiatives around the world. Every major GMI business produced revenue growth over 2005 against a market backdrop that was favorable for most of the year. Across all businesses, GMI had a net increase of more than 200 managing directors and directors and 280 vice presidents to its headcount.

In FICC, we continued to broaden the scope of the commodities trading business in terms of product, geography, and linkage to the broader client franchise, including trading in oil and metals and geographically in the Pacific Rim. We also enhanced our structured finance business with three strategic transactions in the U.S., United Kingdom and South Korea that we expect to provide additional sources of origination and servicing for our non-prime mortgage-backed securitization and trading platform. We also made progress in key investment areas including both interest rate and credit derivatives, principal investing/real estate, and foreign exchange.

Within FICC, on September 5, 2006, we announced an agreement to acquire the First Franklin mortgage origination franchise and related servicing platform from National City Corporation. We expect First Franklin to accelerate our vertical integration in mortgages,

adding scale to our mortgage securitization and trading platform. This acquisition was completed on December 30, 2006, the first day of our 2007 fiscal year.

In Equity Markets, we continued to enhance our leading cash equity trading platform by adding to our portfolio and electronic trading capabilities through additional investments in personnel and technology, as well as additional acquisitions, partnerships and investments. We also made progress in our equity-linked trading business, another key area of investment which increased its revenues more than 50% in 2006. Our equity financing and services business, which includes prime brokerage, set a revenue record in 2006 and continued to gain scale as we further expanded our relationships with hedge funds. The strategic risk group, our distinct proprietary trading business, also generated record revenues, benefiting from continued investments in personnel and infrastructure that provided the capabilities to take more risk when market opportunities arose. We also continued to generate increased revenues and make significant new investments in our private equity business.

In Investment Banking, we continued to expand our origination and advisory capabilities, adding to our global headcount in a targeted manner to improve the breadth and depth of our client franchise. In addition to traditional underwriting and advisory services, we are increasingly providing clients with integrated, multi-faceted solutions that span geographies, asset classes and products such as private equity, derivatives and commodities. We made significant progress in key focus areas, including global leveraged finance where we continued to gain market share.

Also, during the fourth quarter, we completed the acquisition of Petrie Parkman & Co., a niche investment bank focused on the North American oil and gas industry. This acquisition is intended to expand our energy investment banking franchise and complement our growing commodities platform.

Importantly, a significant portion of GMI's growth and investments in 2006 took place outside the U.S., and net revenues and pre-tax earnings from non-U.S. regions now exceed those from the U.S. During the first quarter of 2006, we increased our stake in our Indian joint venture, DSP Merrill Lynch, to further expand the capabilities of that platform and capitalize on the opportunities in that market. In the fourth quarter, we acquired Tat Yatirim Bankasi, a bank in Turkey that will serve as a base for our activities in that country.

GMI's Results of Operations

				% Change	
(dollars in millions)	2006	2005	2004	2006 vs. 2005	2005 vs. 2004
Global Markets					
FICC	**$ 8,133**	$ 6,210	$ 5,090	31%	22%
Equity Markets	**6,730**	4,356	3,036	54	43
Total Global Markets net revenues	**14,863**	10,566	8,126	41	30
Investment Banking					
Origination:					
Debt	**1,735**	1,444	1,258	20	15
Equity	**1,220**	952	1,001	28	(5)
Strategic Advisory Services	**1,099**	882	678	25	30
Total Investment Banking net revenues	**4,054**	3,278	2,937	24	12
Total GMI net revenues	**18,917**	13,844	11,063	37	25
Non-interest expenses before one-time compensation expenses	**11,797**	8,854	7,194	33	23
One-time compensation expenses	**1,369**	–	–	N/M	N/M
Pre-tax earnings	**$ 5,751**	$ 4,990	$ 3,869	15	29
Pre-tax profit margin	**30.4%**	36.0%	35.0%		
Total full-time employees	**15,900**	13,400	12,000		

N/M = Not Meaningful

GMI's 2006 net revenues were $18.9 billion, up 37% from the prior year. Pre-tax earnings of $5.8 billion and pre-tax profit margin of 30.4% included $1.4 billion in one-time compensation expenses incurred in the first quarter of 2006. Excluding these one-time compensation expenses, pre-tax earnings for 2006 were $7.1 billion, up 43% from the prior year, and the pre-tax profit margin was 37.6%, compared to 36.0% in 2005. Refer to Note 1 to the Consolidated Financial Statements for further detail on the one-time compensation expenses. See Exhibit 99.1, filed with our 2006 Form 10-K, for a reconciliation of non-GAAP measures. GMI's growth in net revenues and pre-tax earnings were a result of increased revenues in all three of GMI's major business lines: FICC, Equity Markets and Investment Banking.

In 2005, GMI's net revenues were $13.8 billion, up 25% from the prior year, and pre-tax earnings increased 29% from 2004 to $5.0 billion. GMI's pre-tax profit margin was 36.0%, up from 35.0% in the prior year. Similar to 2006, GMI's growth in net revenues and pre-tax earnings in 2005 resulted from increased revenues in all three of GMI's major business lines: FICC, Equity Markets and Investment Banking.

A detailed discussion of GMI's net revenues follows:

Fixed Income, Currencies and Commodities

FICC net revenues include principal transactions and net interest profit (which we believe should be viewed in aggregate to assess trading results), commissions, revenues from principal investments, fair value adjustments on private equity investments that are held for capital appreciation and/or current income, and other revenues.

In 2006, FICC net revenues of $8.1 billion increased 31% from 2005, as net revenues increased for all major products. The increases in net revenues were primarily driven by record year-over-year results in commodities, credit trading, foreign exchange, and structured finance. In 2005, FICC net revenues of $6.2 billion increased 22% from 2004, primarily resulting from increases in principal investing and structured finance, the commodities business that was acquired in late 2004, and the trading of credit products.

Equity Markets

Equity Markets net revenues include commissions, principal transactions and net interest profit (which we believe should be viewed in aggregate to assess trading results), revenues from equity method investments, fair value adjustments on private equity investments that are held for capital appreciation and/or current income, and other revenues.

Equity Markets net revenues of $6.7 billion increased 54% from 2005 with positive results across every major line of business. The increase in revenues was primarily driven by private equity, the strategic risk group, equity-linked trading and the equity financing and services business, which includes prime brokerage. In 2005, Equity Markets net revenues increased 43% from 2004 to $4.4 billion. This increase was due principally to private equity, cash and equity-linked trading, and the equity financing and services business, which includes prime brokerage and clearing, and reflected the acquisition of Pax Clearing Corporation, a Chicago-based options, stock and futures clearing firm.

Investment Banking

Investment Banking net revenues set a new record in 2006, increasing 24% to $4.1 billion with strong revenue growth generated from both debt and equity origination, as well as strategic advisory services. Investment Banking net revenues increased 12% in 2005 to $3.3 billion, as increased strategic advisory services and debt origination revenues were partially offset by lower equity origination revenues.

Origination

Origination revenues represent fees earned from the underwriting of debt, equity and equity-linked securities, as well as loan syndication fees.

Origination revenues in 2006 were $3.0 billion, up 23% from 2005, driven by increased overall origination activity and our improved market share during 2006. Debt origination revenues set a new record at $1.7 billion, increasing 20% from the prior year. Equity origination revenues of $1.2 billion increased 28% from the prior year. Origination revenues in 2005 were $2.4 billion, up 6% from 2004, reflecting higher debt underwriting revenues, which increased 15% from 2004, partially offset by equity underwriting revenues, which declined 5% from 2004. The increase in debt origination revenues reflected higher revenues from syndicated lending activities, as well as increased overall debt origination activity.

Strategic Advisory Services

Strategic advisory services revenues, which include merger and acquisition and other investment banking and advisory fees, were $1.1 billion in 2006, up 25% on increased transaction volumes. In 2005, strategic advisory services revenues increased 30% to $882 million, reflecting an increase in transaction volumes.

Global Wealth Management

GWM, our full-service retail wealth management segment, provides brokerage, investment advisory and financial planning services, offering a broad range of both proprietary and third-party wealth management products and services globally to individuals, small- to mid-size businesses, and employee benefit plans.

GPC provides a full range of wealth management products and services to assist clients in managing all aspects of their financial profile through the Total Merrill℠ platform. GPC's offerings include commission and fee-based investment accounts; banking, cash management, and credit services, including consumer and small business lending and Visa® cards; trust and generational planning; retirement services; and insurance products. GPC services individuals and small- and middle-market corporations and institutions through approximately 15,880 FAs in approximately 680 offices around the world as of year-end 2006.

GIM includes Merrill Lynch's interests in creating and managing wealth management products, including alternative investment products for clients, for which revenues were previously included within GPC. GIM also includes our share of net earnings from our ownership positions in other investment management companies, including BlackRock. Apart from the new investment in BlackRock, earnings from such ownership positions in other investment management companies were previously reported in GMI.

Global Private Client

Advisory Division

We provide comprehensive brokerage and advisory financial services in the United States to GPC clients principally through our FA network. Outside the United States, we provide comprehensive brokerage and investment services and related products through a network of offices located in 26 countries. We also offer banking and trust services, as well as investment management services, to our clients in many countries.

To be more responsive to our clients' needs and to enhance the quality of our clients' experience, GPC offers a multi-channel service model that more closely aligns our FAs with clients based on levels of investable assets. The Advisory Division's FAs focus primarily on clients with more than $100,000, but less than $10 million of investable assets. Private Wealth Advisors who have completed a rigorous accreditation program focus primarily on clients with more than $10 million of investable assets. GPC's Financial Advisory Center, a team-based service platform with access by telephone and internet, is focused primarily on U.S. clients with less than $100,000 of investable assets. GPC also uses International Financial Advisory Centers to more effectively serve non-U.S. clients with lower levels of investable assets.

To help align products and services to each client's specific investment requirements and goals, GPC offers a choice of traditional commission-based investment accounts, a variety of asset-priced brokerage and investment advisory services and self-directed online accounts. Assets in GPC accounts totaled $1.6 trillion at December 29, 2006, an 11% increase from December 30, 2005, due primarily to market appreciation and, to a lesser extent, net new money.

Individual clients access the full range of GPC brokerage and advisory services through the Cash Management Account® ("CMA®"), a product that combines investment and cash management transactions, as well as Visa® cards, check writing and ATM access. At the end of 2006, there were approximately 2.3 million CMA® accounts with aggregate assets of approximately $770 billion. Small- and medium-sized businesses obtain a wide range of securities account and cash management services through the Working Capital Management Account® ("WCMA account") and related services. The WCMA account combines business checking, investment and electronic funds transfer services into one account for participating business clients. At the end of 2006, there were approximately 115,000 WCMA accounts with aggregate assets of more than $114 billion.

GPC provides electronic brokerage services through Merrill Lynch Direct®, an internet-based brokerage service for U.S. clients preferring a self-directed approach to investing. Merrill Lynch Direct® offers trading of equities, mutual funds and select fixed income securities, access to our proprietary research as well as other research, and a variety of online investing tools.

Total Merrill℠ is the platform for GPC's core strategy offering investment choices, brokerage, advice, planning and/or performance analysis to its clients.

Banking, Trust and Insurance Services

GPC clients place deposits in our banking entities which are used for lending and investment activities. GPC also has a number of different business lines including residential mortgage financing, small and mid-size business lending and securities based lending. GPC also sells life insurance and annuity products and provides personal trust, employee benefit trust and custodial services for its clients. These activities are conducted through our various bank, trust and insurance subsidiaries and are more fully described in the Activities of Principal Subsidiaries section.

Retirement Services

The Merrill Lynch Retirement Group is responsible for approximately $410 billion in retirement assets for approximately 6.3 million individuals. This group provides a wide variety of investment and custodial services to individuals in the United States through Individual Retirement Accounts ("IRAs") or through one of approximately 35,000 workplace-based retirement programs serviced by the group. We also provide investment, administration, communications and consulting services to corporations and their employees for their retirement programs. These programs include equity award and executive services, 401(k), pension, profit-sharing and non-qualified deferred compensation plans, as well as other retirement benefit plans. In addition, we offer *Merrill Lynch Advice Access®*, an investment advisory service for individuals in retirement plans that provides plan participants with the option of obtaining advice through their local FA, an advisor at the Financial Advisory Center or through our Benefits Online® website.

Global Investment Management

GIM creates and manages alternative investment products for clients. GIM's results include revenues derived from those activities, as well as our share of earnings from our ownership positions in other investment management companies, including our investment in BlackRock.

Alternative Investments

Through its alternative investments business, GIM creates and manages a broad array of alternative investment choices for clients. Unlike traditional investments such as mutual funds, whose performance is largely dependent on the direction of the broader market, many alternative investment strategies seek positive returns in any market or economic environment. Our alternative investments business offers a range of investment choices, including offering qualified high-net-worth clients access to a wide range of hedge fund strategies.

BlackRock

BlackRock is one of the world's largest publicly traded investment management firms with approximately $1.1 trillion in assets under management at the end of 2006. BlackRock manages assets on behalf of institutions and individuals worldwide through a variety of equity, fixed income, cash management, and alternative investment products.

GWM's 2006 Developments

GWM continued to focus on growth initiatives during 2006, driving operating leverage through a strategy of revenue and product diversification, annuitization, client segmentation, growth in client assets, the hiring of additional FAs, and investments to improve productivity. Over 700 FAs were added during 2006, and productivity per FA increased over 2005. The growth in FAs came through recruiting efforts, and the continued low rate of turnover among our most productive FAs. GWM continues to make investments to carefully expand both within and outside the United States, where we believe substantial opportunity for growth exists in a number of markets.

GWM continued to make progress in diversifying revenues by increasing recurring revenue sources, including fee-based revenues and net interest profit. Fee-based revenue and net interest profit and related hedges as a percentage of GPC's total net revenues rose to 69%, compared to 66% in 2005, despite a year-over-year increase in transactional and origination revenues. GPC fee-based revenues from asset-priced and managed account products, including Merrill Lynch Consults® and Unlimited Advantage℠, rose 14% in 2006.

GPC continues to invest to expand its franchise outside the United States as evidenced by the private banking joint venture launched during the second quarter of 2006 with Mitsubishi UFJ Financial Group ("MUFG") in Japan, bringing GPC's private banking platform to MUFG's large high-net-worth client base.

On September 29, 2006, Merrill Lynch merged MLIM with BlackRock in exchange for a total of 65 million common and preferred shares representing a 45% voting interest and an economic interest of approximately half of the newly combined BlackRock. The earnings associated with our investment in BlackRock are recorded in GIM within the GWM segment.

On January 29, 2007, Merrill Lynch announced that it entered into a definitive agreement with First Republic Bank ("First Republic") to acquire all of the outstanding common shares of First Republic in exchange for a combination of cash and stock for a total transaction value of $1.8 billion. First Republic is a private banking and wealth management firm focused on high-net-worth individuals and their businesses. The transaction is expected to close in the third quarter of 2007, pending necessary regulatory and shareholder approvals. The results of operations of First Republic will be included in GWM.

GWM Results of Operations

(dollars in millions)	2006	2005	2004	% Change 2006 vs. 2005	% Change 2005 vs. 2004
GPC					
Fee-based revenues	$ 5,813	$ 5,062	$ 4,558	15%	11%
Transactional and origination revenues	3,301	3,207	3,202	3	–
Net interest profit and related hedges(1)	2,148	1,808	1,290	19	40
Other revenues	304	316	440	(4)	(28)
Total GPC net revenues	11,566	10,393	9,490	11	10
GIM					
Total GIM net revenues	541	409	337	32	21
Total GWM net revenues	12,107	10,802	9,827	12	10
Non-interest expenses before one-time compensation expenses	9,379	8,587	7,954	9	8
One-time compensation expenses	281	–	–	N/M	N/M
Pre-tax earnings	$ 2,447	$ 2,215	$ 1,873	10	18
Pre-tax profit margin	20.2%	20.5%	19.1%		
Total full-time employees	33,900	33,000	31,000		
Total Financial Advisors	15,880	15,160	14,140		

N/M = Not Meaningful

(1) Includes interest component of non-qualifying derivatives which are included in other revenues on the Consolidated Statements of Earnings.

GWM's revenues in 2006 were $12.1 billion, an increase of 12% over the prior year, reflecting strong growth in both GPC and GIM's businesses, as well as the inclusion of our share of fourth quarter 2006 after-tax earnings of BlackRock. GWM generated $2.4 billion of pre-tax earnings, and the pre-tax profit margin was 20.2% in 2006, which included $281 million in one-time compensation expenses incurred in the first quarter of 2006. Excluding these one-time compensation expenses, GWM's pre-tax earnings were $2.7 billion, up 23% from the prior year. On the same basis, the pre-tax profit margin was 22.5%, up from 20.5% in 2005, and non-interest expenses were 9% higher in 2006, principally reflecting increased compensation costs associated with higher revenues and growth in FA head-count. Refer to Note 1 to the Consolidated Financial Statements for further detail on the one-time compensation expenses. See Exhibit 99.1, filed with our 2006 Form 10-K, for a reconciliation of non-GAAP measures.

GWM's net inflows of client assets into annuitized-revenue products were $48 billion in 2006, up 19% from 2005. Assets in annuitized-revenue products finished the year at $613 billion, up 16% from 2005, driven by both market appreciation and net inflows. Total net new money was $61 billion in 2006, up 15% from 2005, and total client assets ended the year at a record $1.6 trillion.

Global Private Client

GPC generated net revenues of $11.6 billion in 2006, up 11% from the prior year, as revenues increased in nearly every major revenue category. GPC's net revenues were $10.4 billion in 2005, up 10% from the prior year. Both 2006 and 2005 increases in net revenues were due to higher asset values and strong annuitized net asset inflows that led to increased fee-based revenues, which were supplemented by higher net interest profit.

In 2006, GPC added a net of 720 FAs, driven by continued low turnover of current FAs and recruitment of new FAs. We improved our FA recruiting performance relative to nearly all major competitors in 2006, adding FAs at a faster pace outside the United States than in the United States.

Fee-based Revenues

Fee-based revenues are primarily comprised of portfolio service fees that are derived from accounts that charge an annual fee based on net asset value (generally billed in advance quarterly based on prior quarter asset values), such as Merrill Lynch Consults® (a separately managed account product) and Unlimited Advantage® (a fee-based brokerage account). Fee-based revenues also include fees from insurance products, taxable and tax-exempt money market funds, and alternative investment products, as well as fixed annual account fees and other account-related fees, and commissions related to distribution fees on mutual funds.

GPC generated $5.8 billion of fee-based revenues in 2006, up 15% from 2005. This increase reflected both increased asset values and continued strong net inflows of client assets into annuitized-revenue products. In 2005, fee-based revenues totaled $5.1 billion, up 11% from 2004, reflecting growth in client assets due to higher market valuations and annuitized net asset inflows. This asset growth resulted in higher portfolio service fees and increased distribution fees related to mutual fund sales.

The value of assets in client accounts at year-end 2006, 2005 and 2004 follows:

(dollars in billions)	**2006**	2005	2004
Assets in client accounts			
U.S.	**$ 1,483**	$ 1,341	$ 1,244
Non-U.S.	**136**	117	115
Total	**$ 1,619**	$ 1,458	$ 1,359

Transactional and Origination Revenues

Transactional and origination revenues include certain commission revenues, such as those that arise from agency transactions in listed and OTC equity securities, insurance products, and mutual funds. These revenues also include principal transactions revenues which primarily represent bid-offer revenues on government bonds and municipal securities, as well as new issue revenues which include selling concessions on newly issued debt and equity securities, including shares of closed-end funds.

Transactional and origination revenues were $3.3 billion in 2006, up 3% from the prior year with increases in both transaction-related revenues and origination revenues. In 2005, transactional and origination revenues totaled $3.2 billion, essentially unchanged from 2004 as a marginal increase in transaction-related revenues was offset by lower origination revenues.

Net Interest Profit and Related Hedges

Net interest profit (interest revenues less interest expenses) and related hedges includes GPC's allocation of the interest spread earned in Merrill Lynch's banks for deposits, as well as interest earned, net of provisions for loan losses, on margin, small- and middle-market business and other loans, corporate funding allocations, and the interest component of non-qualifying derivatives.

GPC's net interest profit and related hedges were $2.1 billion in 2006, up 19% from 2005. GPC's net interest profit and related hedges were $1.8 billion in 2005, up 40% from 2004. Both 2006 and 2005 increases primarily reflected higher margins on deposits resulting from rising short-term interest rates and lower provisions for loan losses associated with the small- and middle-market business loan portfolio.

Other Revenues

GPC's other revenues were $304 million in 2006, down 4% in 2005, due in part to lower mortgage-related revenues. Other revenues in 2005 were down 28% from 2004 to $316 million, reflecting lower mortgage-related revenues which were driven in part by lower variable rate mortgage originations.

Global Investment Management

GIM includes revenues from the creation and management of hedge fund and other alternative investment products for clients, as well as our share of net earnings from our ownership positions in other investment management companies, including BlackRock.

GIM's 2006 revenues of $541 million were up 32% from 2005. GIM revenue growth was driven primarily by our share of the fourth quarter 2006 after-tax earnings of BlackRock, as well as increased revenues from the alternative investments business and other ownership positions. GIM's 2005 revenues were up 21% from 2004, due to increased revenues from the alternative investments business and other ownership positions.

Merrill Lynch Investment Managers

Prior to the BlackRock merger on September 29, 2006 (see Note 2 to the Consolidated Financial Statements), MLIM was among the world's largest asset managers with approximately $593 billion of assets under management at the end of the third quarter of 2006.

2006 Developments

On September 29, 2006, Merrill Lynch merged MLIM with BlackRock in exchange for a total of 65 million common and preferred shares, representing a 45% voting interest and approximately half of the economic interest of the newly combined BlackRock.

MLIM's Results of Operations

				% Change	
(dollars in millions)	**2006**[1]	2005	2004	2006 vs. 2005	2005 vs. 2004
MLIM					
Asset management fees	**$ 1,560**	$ 1,573	$ 1,413	(1)%	11%
Commissions	**83**	105	116	(21)	(9)
Other revenues	**257**	129	51	99	153
Total MLIM net revenues	**1,900**	1,807	1,580	5	14
Non-interest expenses before one-time compensation expenses	**1,154**	1,221	1,120	(5)	9
One-time compensation expenses	**109**	–	–	N/M	N/M
Pre-tax earnings	**$ 637**	$ 586	$ 460	9	27
Pre-tax profit margin	**33.5%**	32.4%	29.1%		
Total full-time employees	–	2,600	2,500		

N/M = Not Meaningful

(1) 2006 results include only nine months of operations prior to the BlackRock merger at the end of the third quarter of 2006.

MLIM produced record pre-tax earnings for the first nine months of 2006 as the business generated strong relative investment performance and improved net inflows leading up to the merger with BlackRock at the end of the third quarter.

MLIM's net revenues for 2006, reflecting only nine months of operations, increased 5% over those for the full year 2005, to $1.9 billion, driven by strong net sales and asset appreciation. Pre-tax earnings of $637 million, reflecting only nine months of operations, and pretax profit margin of 33.5% included $109 million in one-time compensation expenses incurred in the first quarter of 2006. Excluding these one-time compensation expenses, pre-tax earnings were $746 million, increasing 27% over the prior-year, and the pre-tax profit margin was 39.3%, up nearly 7 percentage points from 32.4% in 2005. Refer to Note 1 to the Consolidated Financial Statements for further detail on the one-time compensation expenses. See Exhibit 99.1, filed with our 2006 Form 10-K, for a reconciliation of non-GAAP measures.

MLIM's 2005 net revenues were $1.8 billion, up 14% from 2004, due primarily to higher average long-term asset values as well as increases in performance fees and an improvement in the fee profile of assets under management. Pre-tax earnings were $586 million, up 27% from 2004, driven principally by higher net revenues and continued expense discipline as non-compensation expenses were essentially unchanged from 2004. MLIM's pre-tax profit margin was 32.4% in 2005, up from 29.1% in 2004.

Asset Management Fees

Asset management fees primarily consisted of fees earned from the management and administration of retail mutual funds and separately managed accounts for retail investors, as well as institutional funds such as pension assets. Asset management fees also included performance fees, which are generated in some cases by separately managed accounts and institutional money management arrangements.

Asset management fees for the first nine months of 2006 were $1.6 billion, down slightly from the full year revenues in 2005, but up 37% from the first nine months of 2005, driven by strong net sales and asset appreciation. In 2005, asset management fees were $1.6 billion, up 11% from 2004 due to higher average equity market values and an improvement in the fee profile of assets under management.

Commissions

Commissions for MLIM principally consisted of distribution fees and contingent deferred sales charges ("CDSC") related to mutual funds. The distribution fees represented revenues earned for promoting and distributing mutual funds, and the CDSC represented fees earned when a shareholder redeemed shares prior to the required holding period. Commission revenues were $83 million for the first nine months of 2006, down 21% from the full year of 2005, but up 5% from the first nine months of 2005. Commission revenues declined to $105 million in 2005, down 9% from 2004. This 2005 decrease reflected the decline over time in sales of rear-load shares.

Other Revenues

Other revenues primarily included net interest profit, investment gains and losses and revenues from consolidated investments. Other revenues totaled $257 million for the first nine months of 2006, up from $129 million for the full year of 2005 reflecting increased investment gains from consolidated investments.

Geographic Information

Our operations are organized into five regions which include: the United States; Europe, Middle East, and Africa; Pacific Rim; Latin America; and Canada. The following chart depicts our 2006 net revenues by region, including corporate items:

				% Change	
(dollars in millions)	**2006**	2005	2004	2006 vs. 2005	2005 vs. 2004
Net revenues					
Europe, Middle East, and Africa (EMEA)	**$ 6,967**	$ 4,770	$ 3,406	46%	40%
Pacific Rim	**3,691**	2,680	2,367	38	13
Latin America	**1,020**	839	656	22	28
Canada	**378**	229	251	65	(9)
Total Non-U.S.	**12,056**	8,518	6,680	42	28
United States[1]	**22,603**	17,504	15,379	29	14
Total	**$34,659**	$26,022	$22,059	33	18

(1) 2006 revenues include a gain of approximately $2.0 billion, resulting from the closing of the BlackRock merger.

Non-U.S. net revenues for 2006 increased to a record $12.1 billion, up 42% from 2005. Non-U.S. net revenues represented 35% of our 2006 total net revenues, compared to 33% in 2005. Excluding the gain of approximately $2.0 billion resulting from the closing of the BlackRock merger, non-U.S. net revenues would have represented 37% of our 2006 total net revenues. The 2006 growth of non-U.S. net revenues was due to our rapidly expanding international operations, especially in EMEA and the Pacific Rim regions. While we experienced growth of non-U.S. net revenues across all businesses in 2006, the most significant increases were from our Global Markets and Investment Banking businesses. For GMI, non-U.S. net revenues represented 52% of total GMI net revenues in 2006, up from 48% in 2005. For GWM, non-U.S. net revenues represented 11% of total GWM net revenues in both 2006 and 2005.

Net revenues in EMEA were $7.0 billion in 2006, an increase of 46% from 2005. These results were spread across multiple products and businesses mainly within Global Markets and Investments Banking. In Global Markets, we had strong growth in our FICC business, mainly reflecting higher revenues from commodities, credit related products and structured finance products, while Equity Markets' strong results reflected increases from equity-linked products, private equity investments and increases from cash and proprietary trading activities. Investment Banking benefited from higher revenues from both debt and equity origination fees, as well as higher revenues from our strategic advisory services. Net revenues were $4.8 billion in 2005, up 40% from 2004. This increase resulted from higher revenues in FICC primarily associated with commodities, interest rate products and structured finance products, and higher revenues in Equity Markets primarily due to increases from equity-linked trading, private equity investments and cash trading. Increased revenues from Investment Banking activities mainly reflected higher revenues from our strategic advisory services.

Net revenues in the Pacific Rim were $3.7 billion in 2006, an increase of 38% from 2005. These results reflected increases across multiple businesses and products mainly within GMI. In Global Markets, the growth experienced in FICC primarily related to higher revenues in real estate and interest rate products, while Equity Markets increased revenues were driven by cash trading and private equity investments. Investment Banking benefited from higher revenues in both debt and equity originations. Net revenues were $2.7 billion in 2005, an increase of 13% from 2004, mainly due to growth in Equity Markets reflecting higher revenues from cash and equity-linked trading.

Net revenues in Latin America increased 22% in 2006, primarily reflecting strong results in both our GMI and GWM businesses.

Net revenues in Canada increased 65% in 2006, due to strong results in our GMI businesses.